

Message Text

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60-15
ACTION EA-14

INFO OCT-01 ADP-00 EB-11 COME-00 INT-08 TRSE-00 SCEM-02

SS-15 NSC-10 SSO-00 NSCE-00 CIAE-00 INR-10 NSAE-00

RSC-01 INRE-00 XMB-07 FPC-01 PRS-01 CIEP-02 OMB-01

L-03 RSR-01 /088 W
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FM AMEMBASSY TOKYO
TO SECSTATE WASHDC IMMEDIATE 6109
INFO AMEMBASSY JAKARTA IMMEDIATE

S E C R E T TOKYO 10585

C O R R E C T E D C O P Y FOR GARBLED PORTION NUMBERED PARA 9.

E.O. 11652 - GDS
TAGS: ENRG, EFIN, BEXP, ID, JA
SUBJECT: INDONESIAN LNG

REF: A) STATE 164627; B) TOKYO 10419; C) JAKARTA 9874

SUMMARY: FONOFF OFFICIAL APPEARED TO CONFIRM EARLIER REPORTS FROM TOKYO THAT JAPAN SEEKING TO FINANCE PRODUCTION LNG FROM BOTH FIELDS IN INDONESIA AND WERE SEEKING OBTAIN ENTIRE LNG FLOW FOR JAPAN. APPARENTLY MORE UP TO DATE REPORT FROM INDONESIAN WHO TAKING PART IN CURRENT TOKYO TALKS ON LNG PROJECT, INDICATES THAT FINANCING FOR LNG LIQUIFICATION PLANTS WILL BE SHARED BETWEEN JAPAN AND U.S. (WITH DOMINANT SHARE FROM JAPAN) AND LNG SHIPMENTS ALSO SHARED BETWEEN JAPAN AND US (WITH BULK COMING TO JAPAN). END SUMMARY.

1. EMBASSY OFFICERS HAVE HELD TWO CONVERSATIONS TODAY WHICH APPEAR SHED FURTHER LIGHT ON SITUATION. WE BELIEVE SECOND CONVERSATION TO BE BASED ON MORE UP TO DATE INFORMATION. WE WILL CONTINUE TO PRESS FOR QTE
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AUTHORITATIVE UNQTE INFO FROM GOJ ON MONDAY.
IN ABSENCE DEPUTY VICE MINISTERS TSURUMI AND TOGO,
ECONCOM MIN CALLED UPON MIKANAGI, DIRECTOR GENERAL
ECONOMIC COOPERATION BUREAU. AFTER LISTENING TO ECONCOM

MIN'S STATEMENT WHICH EMPHASIZED STRONG US INTEREST IN NORTH SUMATRAN (ACEH) PROJECT AS WELL AS TO CRITICISM IN US THAT JAPAN MAY BE TRYING TO FREEZE US OUT OF LNG RESOURCES IN INDONESIA, MIKANAGI STATED THAT GOJ HAD NOT BEEN AWARE UNTIL VERY RECENTLY THAT THERE HAVE BEEN NEGOTIATIONS BETWEEN PACIFIC LIGHTING AND INDONESIA. ECONCOMMIN NOTED THAT THIS DIFFICULT TO UNDERSTAND SINCE JAPANESE INDUSTRIAL ESTABLISHMENT OBVIOUSLY AWARE OF NEGOTIATIONS. EDMOND ALSO NOTED THAT IN LIGHT DIFFERING REPORTS WHICH WE HEARING WE WISHED TO OBTAIN QTE AUTHORITATIVE UNQTE INFORMATION FROM GOJ CONCERNING THE DISCUSSIONS BETWEEN INDONESIA AND JAPAN. MIKANAGI NOTED THAT HE COULD NOT PROVIDE AUTHORITATIVE INFORMATION AT THIS TIME SINCE HE HAD NOT BEEN INFORMED AS TO THE LATEST DISCUSSIONS, BUT THAT HE COULD PROVIDE SOME BACKGROUND.

2. FIRST DISCUSSION RE NORTH SUMATRA PROJECT TOOK PLACE LAST SEPTEMBER WHEN PRESIDENT PERTAMINA, IBNU SUTOWO VISITED JAPAN. AT THAT TIME HE INSISTED ON SEEING PRIME MINISTER TANAKA. IN RELATIVELY BRIEF CONVERSATION, IBNU ASKED FOR JAPANESE FINANCIAL ASSISTANCE OF \$700 MILLION FOR DEVELOPMENT NORTH SUMATRAN LNG FIELD. TANAKA TOLD IBNU TO FOLLOW UP WITH NAKASONE AND MOROZUMI. MOROZUMI-RADIUS MEMORANDUM OUTGROWTH OF NEGOTIATIONS. MIKANAGI CONFIRMED THAT TO HIS BEST UNDERSTANDING JAPAN NEGOTIATING WITH INDONESIANS TO FINANCE THREE LIQUIFICATION PLANTS (ONE IN KALIMANTAN AND TWO IN NORTH SUMATRAN FIELD WITH COST OF THREE ESTIMATED AT \$700 MILLION) WITH ALL OF THE LNG DESTINED TO COME TO JAPAN. SEE DIFFERING INFORMATION BELOW.

3. MIKANAGI BELIEVES THAT THERE IS SIGNIFICANT DIVISION OF OPINION BETWEEN PERTAMINA AND GOVERNMENT OF INDONESIA, WITH PRESIDENT SUHARTO CONCERNED ABOUT OBTAINING GREATER CONTROL OF PERTAMINA'S EXPENDITURES IN LIGHT IMF CRITICISM. MIKANAGI EXPRESSED VIEW THAT THIS DIVISION
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OF OPINION MAY EXPLAIN PERTAMINA'S DESIRE FOR HASTE IN NEGOTIATION.

4. PRINCIPAL REASON FOR JAPANESE SLOWNESS IS APPARENT LACK OF ENTHUSIASM OF SOME PROMINENT POTENTIAL JAPANESE CONSUMERS, SUCH AS TOKYO ELECTRIC POWER (KIKAWADA) AND TOKYO GAS (ANZAI) WHO ALREADY HEAVILY ENGAGED IN LNG PROJECTS ELSEWHERE.

5. IN EFFORT OVERCOME THIS HESITANCY, JAPANESE PROMOTERS OF PROJECT, PARTICULARLY SOHEI NAKAYAMA, ADVISOR TO JAPAN DEVELOPMENT BANK TRYING TO GET STUDY TEAM TO VISIT INDONESIA. FURTHER VISIT OF RADIUS PRAWIRO

TO JAPAN ALSO ANTICIPATED.

6. MIKANAGAI AGREED THAT YAMAGATA, DIRECTOR GENERAL OF MITI'S ENERGY AGENCY WOULD BE BETTER SOURCE FOR LATEST DEVELOPMENTS IN NEGOTIATIONS AND EMBASSY HOPES OBTAIN APPOINTMENT WITH HIM ON MONDAY. HE WAS OUT OF OFFICE TODAY.

7. EMBOFF ALSO MET WITH S. SARWONO, VICE PRESIDENT OF FAR EAST OIL TRADING CO., (AFFILIATED WITH PERTIMINA) IN FURTHER ATTEMPT TO CLARIFY JAPANESE AND INDONESIAN INTENTIONS. SARWONO SAID THAT PM TANAKA HAS ALWAYS MAINTAINED, SINCE THE BEGINNING OF DISCUSSIONS WITH INDONESIA ON LNG, THAT JAPAN DID NOT WANT TO MONOPOLIZE INDONESIAN GAS. THIS INTENTION, SARWONO SAID, APPARENTLY DID NOT GET THROUGH TO BUREAUCRACY, PARTICULARLY TO THEN VICE MINISTER MOROZUMI OF MITI, WHO CONCLUDED MEMORANDUM WITH RADIUS PRAWIRO TO PURCHASE ALL INDONESIAN GAS. ACCORDING SARWONO, HOWEVER, RADIUS DID NOT KNOW QTE REAL SITUATION UNQTE. IT LATER BECAME EVIDENT TO INDONESIANS THAT JAPAN HAD LONG TERM LNG SUPPLY COMMITMENTS FROM IRAN, ABU DHABI, MALAYSIA, AND BRUNEI AND WOULD NOT BE ABLE TO CONSUME EXPECTED LNG PRODUCTION OF 12 MILLION TONS AT LEAST UNTIL WELL INTO 1980'S. INDONESIANS THUS CONCLUDED, SARWONO ADDED, THAT JAPAN WANTED TO CONTROL TOTAL OUTPUT FROM INDONESIA AND THEN TO PRESURE INDONESIA TO REDUCE PRODUCTION.

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8. SARWONO SAID THAT DURING PRESENT TALKS WITH JAPANESE (IN WHICH HE TAKING PART) INDONESIANS HAVE TOLD JAPANESE TAHT RADIUS MEMORANDUM NOT BINDING SINCE IT WAS QTE INITIALLED BUT NOT SIGNED UNQTE, BUT IN ANY CASE MEMORANDUM INVALID SINCE JAPAN OBVIOUSLY UNABLE TO CONSUME TOTAL PROJECTED OUTPUT. JAPANESE HAVE APPARENTLY ACCEPTED THIS, HE SAID.

9. ACCORDING SARWONO, INDONESIANS NOW PLAN TO EXPORT 7-8 MILLION TONS PER YEAR OF LNG TO JAPAN AND MINIMUM OF 4 MILLION TONS TO U.S. SARWONO REPEATEDLY STRESSED HOWEVER THAT PACIFIC LIGHTING SHOULD PAY ABOUT 65 CENTS PER MILLION BTU (F.O.B) SINCE JAPAN WOULD PAY 68-70 CENTS AND TOO LARGE A SPREAD MIGHT LATER BE VERY EMBARRASSING TO GOI. SARWONO NOTED HE WOULD DISCUSS PRICE FURTHER WITH PACIFIC LIGHTING NEGOTIATOR TODD WHO WILL ARRIVE IN JAPAN AUGUST 19.

10. REGARDING SPECIFICS OF PROJECT, SARWONO STATED THAT PLANS WERE TO BUILD TWO LNG PLANTS: A SMALL ONE IN KALIMANTAN AND A LARGER ONE IN ACEH AREA OF NORTH SUMATRA. KALIMANTAN PLANT WOULD BE FINANCED USING A PART OF \$700 MILLION CREDIT JAPANESE EXPECTED TO EXTEND FOR PROJECT. REMAINDER OF JAPANESE

CREDIT WOULD BE COMBINED WITH U.S. EXIMBANK CREDIT OF \$300-400
MILLION TO FINANCE LARGE LIQUIFICATION PLANT IN NORTH SUMATRA.
SARWONO MAINTAINED THAT SINCE JAPANESE LOAN WAS UNTIED, QTE
LARGE PART UNQTE OF EQUIPMENT FOR BOTH PLANTS WOULD COME FROM U.S.
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